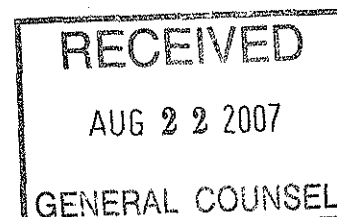


Samford



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL



GREGORY D. STUMBO
ATTORNEY GENERAL

August 22, 2007

1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT, KY 40601-8204

RECEIVED

AUG 22 2007

PUBLIC SERVICE
COMMISSION

David Samford
General Counsel
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Meeting on August 16, 2007 Concerning *Commonwealth of Kentucky, ex rel., Gregory D. Stumbo, Attorney General v. Kentucky Public Service Commission and Union Light, Heat and Power Company*, Franklin Circuit Court, Division I, Civil Action 06-CI-269

Dear Mr. Samford:

At the conclusion of the meeting last Thursday, August 16, 2007, you asked whether the Attorney General's Office would be willing to agree to a stay of the Franklin Circuit Court's order. The proposed stay would cover the Commission's continued review of various surcharges, excluding the accelerated mains replacement programs (AMRPs). At that time, I pledged to respond to you as quickly as possible. This letter serves as notice that my office cannot agree to a stay of the Commission's docketing, reviewing, and deciding of any case involving a surcharge that is not based on statutory authority, as ordered by the Franklin Circuit Court.

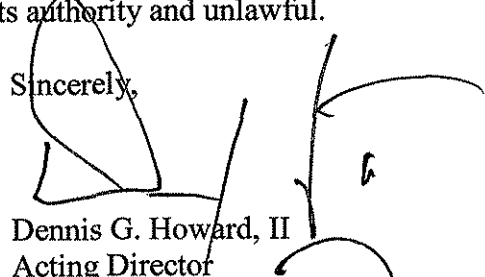
The Attorney General's office is concerned about potential rate volatility that may result from the order if certain gas and fuel cost adjustments are not timely made. As a result, my office began contacting utility companies on August 9, 2007, with the invitation that we immediately address those surcharges by way of legislation. We will continue with that endeavor, and hereby renew our offer to participate in any working group set up by the Commission. Moreover, we will continue to discuss with the industry other existing surcharges and the possibility of codifying them as well. Any such codification must be specifically tailored, of course.



David Samford, General Counsel
Kentucky Public Service Commission
August 22, 2007
Page 2

The Attorney General intends to move expeditiously to reduce or eliminate any detrimental consequences to ratepayers, and looks forward to your assistance in this matter. The Attorney General cannot, however, agree to acquiesce to the PSC's exercise of power which has been declared to be outside of its authority and unlawful.

Sincerely,



Dennis G. Howard, II
Acting Director
Office of Rate Intervention